

Message Text

CONFIDENTIAL

PAGE 01 LONDON 11117 01 OF 06 061534Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 FEAE-00
/099 W

-----071459 061733Z /44

R 061523Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5845
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
USMISSION NATO
AMEMBASSY PARIS
USMISSION GENEVA
USNMR SHAPE
AMCONSUL BELFAST
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 01 OF 06 LONDON 11117

USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY

E.O. 11652: GDS
TAGS: PINT, PGOV, UK
SUBJECT: THE CALLAGHAN GOVERNMENT, ITS PROBLEMS,
STRATEGY AND PROSPECTS

SUMMARY - THERE ARE SIX DETERMINATIVE AND INTERRELATED
VARIABLES IN THE EQUATION DEFINING THE CALLAGHAN GOVERN-
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 11117 01 OF 06 061534Z

MENT'S CAPACITY TO REMAIN IN POWER: THE COHESION OF
THE PARLIAMENTARY LABOR PARTY (PLP); THE DURABILITY OF
THE PACT WITH THE LIBERAL PARTY; THE "POLITICAL ROT"
FACTOR; THE POSSIBILITY OF SERIOUS POLITICAL MISCALCU-
LATION; THE GOVERNMENT'S RELATIONS WITH THE TRADE
UNIONS; AND THE GENERAL ECONOMIC SITUATION. WITH HIS
GOVERNMENT'S POPULARITY LOW AND ITS WORKING MAJORITY

IN COMMONS RELATIVELY SECURE, CALLAGHAN'S POLITICAL STRATEGY IS TO HOLD ON TO POWER UNTIL AN EXPECTED ECONOMIC UPTURN IMPROVES LABOR'S POPULAR STANDING. WHILE HIS ECONOMIC EXPECTATIONS MAY NOT BE FULFILLED, WE BELIEVE CALLAGHAN'S CHANCES FOR RETAINING POWER -- A VITAL PRE-CONDITION FOR VICTORY IN THE NEXT ELECTION -- FOR ANOTHER 12 TO 15 MONTHS ARE GOOD, DESPITE THE INHERENT INSTABILITY OF MINORITY PARLIAMENTARY GOVERNMENT. THERE IS EVEN AN OUTSIDE CHANCE CALLAGHAN CAN AVOID AN ELECTION UNTIL THE EARLY FALL OF 1979. WHENEVER IT COMES, HOWEVER, A GENERAL ELECTION IS LIKELY TO FAVOR THE TORIES, THOUGH PROBABLY BY A RATHER NARROWER MARGIN THAN IS GENERALLY EXPECTED. END SUMMARY.

1. BACKGROUND - TO UNDERSTAND THE POLITICAL POSITION OF CALLAGHAN'S MINORITY GOVERNMENT IT IS FIRST NECESSARY TO EXAMINE THE PARLIAMENTARY SCORECARD. EXCLUDING THE FOUR NON-VOTING MPS AND THE TWO SEATS PRESENTLY VACANT, THE LINE-UP IS AS FOLLOWS:

GOVERNMENT AND SUPPORTERS	COMBINED OPPOSITION
LABOR 309 SEATS	CONSERVATIVE 279 SEATS
LIBERAL 13	SCOTTISH NAT. 11
N.IRELAND 2	ULSTER UNION. 10
SCOTTISH LABOR 2	WELSH NAT. 3
TOTAL 326 SEATS	303 SEATS

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 11117 01 OF 06 061534Z

THE KEY FIGURES ARE LABOR'S CURRENT EDGE OVER THE CONSERVATIVES (30 SEATS) AND THE SIZE OF ITS EFFECTIVE WORKING MAJORITY (23 SEATS). THE FIRST PRECLUDES AN EFFECTIVE UNILATERAL CHALLENGE FROM THE TORIES. WITHOUT THE SUPPORT OF NEARLY ALL THE MINORITY PARTIES, AN IDEOLOGICALLY DISPARATE AND PROGRAMMATICALLY DIVIDED BUNCH, THEY SIMPLY CANNOT HOPE TO OUST THE GOVERNMENT ON A CONFIDENCE VOTE. OR, TO PUT IT ANOTHER WAY, THE CONSERVATIVES CANNOT HOPE TO FORCE A GENERAL ELECTION WITHOUT

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 11117 02 OF 06 061541Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 FEAE-00
/099 W

-----071566 061733Z /44

R 061523Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5846
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
USMISSION NATO
AMEMBASSY PARIS
USMISSION GENEVA
USNMR SHAPE
AMCONSUL BELFAST
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 02 OF 06 LONDON 11117

THE AID OF THE LIBERALS -- WHOSE SUPPORT IS CURRENTLY
PLEDGED TO THE GOVERNMENT -- OR AN OPEN SPLIT IN THE
LABOR PARTY. THE SECOND FIGURE, WHILE UNDERSCORING
THE TORIES' RELATIVE IMPOTENCE, TENDS TO UNDERESTIMATE
THE GOVERNMENT'S ACTUAL STRENGTH. TWO OF THE WELSH
NATIONALISTS ARE IDEOLOGICALLY SYMPATHETIC TO THE
GOVERNMENT AND SEVERAL OF THE ULSTER UNIONISTS ARE AN-
TAGONISTIC TO THE TORIES. THUS BARRING THE COLLAPSE OF
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 11117 02 OF 06 061541Z

THE GOVERNMENT'S PACT WITH THE LIBERALS OR A PROFOUND
CLEAVAGE IN THE LABOR PARTY -- NEITHER OF WHICH SEEM
IMMINENT -- THE GOVERNMENT'S PARLIAMENTARY BASE IS
SECURE. NEVERTHELESS, ITS OVERALL MINORITY POSITION
MEANS THAT IT NO LONGER RETAINS A MAJORITY IN PARLIA-
MENTARY COMMITTEES AND THAT GOVERNMENT LEGISLATION CAN
BE AMENDED BY A COHESIVE OPPOSITION OR DISSIDENT LABOR
MPS WORKING WITH THE OPPOSITION.

2. DESPITE ITS PARLIAMENTARY POSITION, THE CALLAGHAN

GOVERNMENT HAS NO DESIRE TO CONTEST A GENERAL ELECTION. PUBLIC OPINION, AS MEASURED IN BY-ELECTIONS, LOCAL ELECTIONS (BOTH UNRELIABLE INDICES OF GENERAL ELECTION RESULTS) AND OPINION POLLS AFFIRM THE LABOR PARTY'S UNPOPULARITY. THE POLLS FLUCTUATE WIDELY, BUT OVER THE PAST FIVE MONTHS THE TORY LEAD HAS AVERAGED ABOUT 14 PERCENT. EVEN THIS AVERAGE, HOWEVER, REQUIRES INTERPRETATION. EXPERIENCE SUGGESTS THAT THE GALLUP SAMPLE, FOR EXAMPLE, CONSISTENTLY REFLECTS A 2 OR 3 PERCENT CONSERVATIVE BIAS. MOREOVER, EXPERIENCE CLEARLY SHOWS THAT PREFERENTIAL DIFFERENTIALS NARROW SHARPLY, AND EVEN REVERSE, DURING ELECTION CAMPAIGNS.

3. RECENT POLL DATA ALSO REVEAL OTHER SIGNIFICANT TRENDS. FIRST, CALLAGHAN CONTINUES TO ENJOY A RELATIVELY HIGH CONFIDENCE RATING AMONG RESPONDENTS. SECOND, TRADE UNIONISTS AS A GROUP HAVE SHOWN A SHARP SWING TO THE CONSERVATIVES FROM LABOR. AND THIS SWING IS MOST PRONOUNCED AMONG THE HIGHLY SKILLED, PRECISELY THOSE WHO HAVE BEEN MOST AFFECTED BY EROSION OF PAY DIFFERENTIALS AND OTHER ANOMALIES ARISING FROM PAY POLICIES. WHEN THE UNDECIDED ARE EXCLUDED, THE PARTY PREFERENCE BREAKDOWN AMONG UNIONISTS IS 41 PERCENT FOR CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 11117 02 OF 06 061541Z

EACH OF THE TWO MAJOR PARTIES. THESE DATA REVEAL A SHARP EROSION IN LABOR SUPPORT IN ONE OF ITS TRADITIONAL STRONGHOLDS. THE THIRD SIGNIFICANT TREND OCCURS AMONG YOUNGER (18 TO 21) VOTERS, ANOTHER TRADITIONAL AREA OF STRONG LABOR SUPPORT. AMONG THIS GROUP, THE TWO MAJOR PARTIES ARE RUNNING NECK-IN-NECK. THIS COMPARES WITH A GENERALLY CONSTANT 2 TO 1 ADVANTAGE ENJOYED BY LABOR DURING 1972-73, THE PERIOD PRECEDING THE LAST GENERAL ELECTION.

4. ALL OBJECTIVE DATA, ACCORDINGLY, SUGGEST THAT THE TORIES WOULD WIN A GENERAL ELECTION HELD TODAY. THE MAGNITUDE OF THIS SUPPOSITIONAL VICTORY, OF COURSE, IS PROBLEMATIC, BUT WE ARE INCLINED TO BELIEVE IT WOULD BE RATHER SMALLER THAN THE DATA ALONE SUGGEST.

5. POLITICAL STRATEGY - SINCE HE RETAINS AN EFFECTIVE WORKING MAJORITY IN COMMONS AND IS RUNNING BEHIND HIS PRINCIPAL OPPOSITION IN OPINION SURVEYS AND BY-ELECTIONS, IT IS NOT SURPRISING THAT CALLAGHAN WISHES TO AVOID A GENERAL ELECTION. LABOR'S POLITICAL STRATEGY IS NOT BASED SOLELY ON NEGATIVE CONSIDERATIONS, HOWEVER. THE GOVERNMENT BELIEVES ITS CURRENT ECONOMIC POLICIES WILL LEAD TO A REVITALIZATION OF BRITISH INDUSTRY AND AN ACCEPTABLE RATE OF GROWTH, IF ACCOMPANIED

BY A GENERAL UPTURN IN THE WORLD ECONOMY. INCOME FROM NORTH SEA OIL PLAYS A MAJOR PART IN THIS STRATEGY, WHICH THE GOVERNMENT HOPES WILL BEGIN TO TAKE HOLD WITHIN 12 TO 18 MONTHS. SIMPLY PUT, CALLAGHAN WISHES TO AVOID ELECTIONS FOR AS LONG AS POSSIBLE IN THE EXPECTATION THAT A GENERAL ECONOMIC UPTURN AND NORTH SEA OIL WILL REVERSE OPINION TRENDS WHICH NOW FAVOR THE CONSERVATIVES. HIS RESOLVE -- AND THAT OF HIS COLLEAGUES -- IS BUTTRESSED BY THE CONVICTION WITHIN THE LABOR PARTY THAT THE BENEFITS OF THE TOUGH ECONOMIC DECISIONS TAKEN BY THE 1964-70 LABOR GOVERNMENT WERE REAPED AND

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 LONDON 11117 02 OF 06 061541Z

SQUANDERED BY THE HEATH GOVERNMENT. LABOR THEREFORE IS DETERMINED TO AVOID REPETITION OF THAT PERCEIVED SCENARIO, ESPECIALLY SINCE NORTH SEA OIL REVENUES WILL MAKE THE NEXT HARVEST MUCH RICHER.

6. THERE ARE TWO FUNDAMENTAL ASSUMPTIONS UNDERPINNING LABOR'S STRATEGY: THAT A WORLD-WIDE ECONOMIC UPTURN

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 11117 03 OF 06 061550Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 FEAE-00
/099 W

-----071669 061734Z /44

R 061523Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5847
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
USMISSION NATO
AMEMBASSY PARIS
USMISSION GENEVA
USNMR SHAPE
AMCONSUL BELFAST
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 03 OF 06 LONDON 11117

IS NEAR, IF NOT IMMINENT; AND THAT THE GOVERNMENT'S ECONOMIC STRATEGY WILL BE SUCCESSFUL IN REVERSING LONG-TERM TRENDS IN BRITAIN AND REVITALIZING THE BRITISH ECONOMY. THESE ASSUMPTIONS MAY NOT PROVE OUT -- THEY SEEM TENUOUS TO US -- BUT FROM CALLAGHAN'S VIEWPOINT THEY UNDERPIN THE ONLY GAME IN TOWN.

7. THE ISSUE - SIMPLY STATED, THE POLITICAL ISSUE MAY
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 11117 03 OF 06 061550Z

BE DEFINED AS FOLLOWS: CAN THE CALLAGHAN GOVERNMENT SURVIVE LONG ENOUGH TO SEE ITS STRATEGY PAY OFF? IT SEEMS TO US THAT THE GOVERNMENT'S SURVIVAL OVER THE NEXT 12 TO 15 MONTHS IS PROBABLE, BUT BY NO MEANS ASSURED. INDEED, ITS CONTINUANCE IN POWER FOR UP TO 18 OR 24 MONTHS IS WITHIN THE REALM OF POSSIBILITY (ELECTIONS MUST BE HELD BY OCTOBER 1979). SURVIVAL ALONE, AS WE NOTED ABOVE, IS NOT ENOUGH TO ENSURE THAT THE HOPED-FOR ELECTORAL PAYOFF WILL EVENTUATE, THOUGH IT IS A CRITICAL PRE-CONDITION.

8. THE GOVERNMENT'S POLITICAL SURVIVAL, IN OUR VIEW, IS DEPENDENT UPON SIX VARIABLE, INTERRELATED FACTORS. THE NUMBER OF VARIABLES AND THEIR INTERRELATIONSHIP MEANS THAT THE SOLUTION OF THE POLITICAL EQUATION, LIKE ITS MATHEMATICAL COUNTERPART, IS COMPLEX AND THAT THERE IS NO SINGLE CORRECT ANSWER. THESE KEY FACTORS ARE:
-- THE COHESION OF THE PARLIAMENTARY LABOR PARTY;
-- THE DURABILITY OF THE PACT WITH THE LIBERALS;
-- THE EFFECTS OF "POLITICAL ROT" ARISING FROM THE FATIGUE OF GOVERNANCE;
-- THE LIKELIHOOD OF A CRITICAL POLITICAL MISCALCULATION BY ONE OF THE PRINCIPAL PLAYERS;
-- THE GOVERNMENT'S RELATIONS WITH THE TRADE UNIONS, WHICH AFFECTS ALL OF THE ABOVE FACTORS; AND
-- THE GENERAL ECONOMIC SITUATION WHICH ALSO IMPACTS DIRECTLY ON THE FIVE FACTORS INDICATED

PREVIOUSLY.

9. LABOR PARTY COHESION - IT IS A TRUISM TO NOTE THAT THE LABOR PARTY RETAINS THE IDEOLOGICAL DIVISIONS WITH WHICH IT WAS BORN. THIS TRADITIONAL FACTIONALIZATION, GENERALLY SIMPLIFIED BY THE MEDIA AND OTHERS INTO
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 11117 03 OF 06 061550Z

A LEFT/RIGHT CLEAVAGE, IS COMPLEX AND DYNAMIC. IN A VERY REAL SENSE, THE LABOR PARTY IS A COALITION OF REFORMERS, TRADE UNIONISTS, POPULISTS, FABIAN SOCIALISTS, CHRISTIAN COMMUNITARIANS AND NEO-MARXISTS WHO ARE UNITED ONLY IN THEIR DESIRE TO CHANGE BRITISH SOCIETY AND STRENGTHEN PARLIAMENTARY DEMOCRACY. UNDERSTANDABLY, IDEOLOGICAL DISPARITY IS A CONSTANT SOURCE OF CONCERN TO PARTY LEADERS. THE INTERNAL STRESSES ARISING FROM THE IDEOLOGICAL AND PROGRAMMATIC DIFFERENCES ARE REFLECTED IN THE PLP AND USUALLY CAUSE FACTIONS TO SHIFT FROM ISSUE TO ISSUE.

10. THE GOVERNMENT'S RECENT UNDERSTANDING WITH THE LIBERAL PARTY PLACED NEW STRESS ON THE PLP'S COHESION. IT WAS A "QUICK FIX" DICTATED BY THE IMPERATIVE OF A CONFIDENCE VOTE. CALLAGHAN DID NOT HAVE TIME TO CONSULT THE PLP, EVEN IF HE HAD WISHED TO DO SO, AND THIS LACK OF CONSULTATION HAS BEEN A SOURCE OF DISQUIET AMONG LABOR BACKBENCHERS. MOREOVER, LABOR MPS HAVE IDEOLOGICAL (E.G. ON THE PART OF LABOR'S LEFT-WING), HISTORICAL (E.G. THE 1931-35 MACDONALD COALITION) AND STRUCTURAL (E.G. FEARS THAT THE 13 LIBERAL MPS WILL HAVE GREATER INFLUENCE ON POLICY THAN THE LARGER PLP FACTIONS) REASONS FOR NOT WELCOMING THE PACT. POLITICAL SELF-PRESERVATION, HOWEVER, OVERCAME THESE OBJECTIONS. THE TENDENCY -- ESPECIALLY AMONG THOSE ON BOTH THE RIGHT AND LEFT EXTREMES OF THE PARTY -- TO PLACE PRINCIPLE, REAL OR IMAGINED, ABOVE LOYALTY TO PARTY AND GOVERNMENT ALSO UNDERMINES THE COHESION NEEDED IN PARLIAMENTARY GOVERNMENT. IN THIS REGARD, THE MEDIA'S ALMOST EXCLUSIVE FIXATION ON LABOR'S LEFT-WING CAN BE MISLEADING. IN FACT, THE NUMBER OF PARLIAMENTARY DEFEATS THE LABOR GOVERNMENT HAS SUFFERED DUE TO RIGHT-WING DEFECTIONS IS ROUGHLY EQUAL TO THOSE RESULTING FROM LEFT-WING ACTION. FINALLY, THE GENERAL ECONOMIC SITUATION AND THE GOVERNMENT'S RELATIONS WITH THE UNIONS EXERCISE A STRONG IN-
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 LONDON 11117 03 OF 06 061550Z

FLUENCE ON PLP COHESION -- WHEN UNEMPLOYMENT SOARS, INFLATION REDUCES THE PURCHASING POWER OF PENSIONS OR PUSHES THE LOW PAID INTO THE INCOME TAX CATEGORY, OR TRADE UNION LEADERS ARE ALIENATED BY GOVERNMENT POLICIES, LABOR BACKBENCHERS BECOME RESTIVE AND INCREASINGLY IMPERVIOUS TO PARTY DISCIPLINE.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 11117 04 OF 06 061551Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 FEAE-00
/099 W

-----071679 061735Z /44

R 061523Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5848
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
USMISSION NATO
AMEMBASSY PARIS
USMISSION GENEVA
USNMR SHAPE
AMCONSUL BELFAST
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 04 OF 06 LONDON 11117

11. WE CAN SEE NO SPECIFIC ISSUE ON THE HORIZON, NOW THAT THE FREE VOTE ON DIRECT ELECTIONS HAS DEFUSED THAT POTENTIAL BOMBSHELL, ON WHICH THE FAILURE OF PLP COHESION IS LIKELY TO BRING DOWN THE GOVERNMENT. BUT

THE NORMAL FLUIDITY AND DELICACY OF THE SITUATION IS
ACCENTUATED BY THE GOVERNMENT'S MINORITY POSITION.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 11117 04 OF 06 061551Z

12. THE LIBERAL PACT - THE GOVERNMENT'S MAJORITY IN
COMMONS RESTS SQUARELY ON ITS AGREEMENT WITH THE LIBERAL
PARTY. TWO CONSIDERATIONS MOVED THE LIBERALS TO SUP-
PORT THE GOVERNMENT: THEIR DESIRE TO AVOID A GENERAL
ELECTION WHICH MIGHT HAVE LEFT THEM WITH AS FEW AS 2 OR
3 SEATS IN COMMONS; AND THE OPPORTUNITY TO ACQUIRE A
PIECE, ALBEIT SMALL, OF THE POLITICAL ACTION AFTER FOUR
DECADES IN THE WILDERNESS. THE PUBLIC REACTION TO THE
LIBERAL DECISION, AS FAR AS CAN BE DETERMINED FROM BY-
ELECTION RESULTS AND OPINION POLLS, HAS BEEN ADVERSE.
INDEED, THE DECLINE IN THEIR POPULARITY SEEMS TO HAVE
ACCELERATED, LEAVING THEM BOXED IN. FAILURE TO RENEW
THE PACT THIS FALL WOULD LEAVE THE LIBERALS EVEN WORSE
OFF THAN BEFORE IN ELECTORAL TERMS. THEIR ONLY RA-
TIONAL OPTION IS TO SEEK EXTENSION OF THE PACT AND IN-
CREASED INFLUENCE ON GOVERNMENT POLICY, WHILE HOPING
THAT CALLAGHAN'S ECONOMIC STRATEGY WILL PAY OFF AND THAT
THEY WILL RECEIVE SOME OF THE CREDIT. IT'S CLEARLY A
GAMBLE, AND THEY ARE DEALING FROM A WEAK POSITION.
THEY WILL BE FORCED TO BECOME MORE VOCAL IN TRYING TO
SHAPE GOVERNMENT POLICIES IN ORDER TO DEMONSTRATE THEIR
POLITICAL RELEVANCE. THIS CARRIES TWO RISKS: FIRST,
IT WILL ACCENTUATE THE STRESS ON LABOR COHESION; AND
SECOND, IT INCREASES THE LIKELIHOOD THAT THE LIBERAL
LEADERS, WHO ARE NEW TO THE BIG TIME, WILL MISPLAY THEIR
HAND. CALLAGHAN MUST BE ALERT TO BOTH DANGERS.

13. THE CASE FOR RENEWAL OF THE AGREEMENT, ON ANY
RATIONAL BASIS, IS OVERWHELMING, AND THUS FAR ALL THE
PRINCIPALS HAVE DEMONSTRATED A SOPHISTICATED APPRECI-
ATION OF THE POTENTIAL PITFALLS. BUT RATIONALITY
DOESN'T ALWAYS PREVAIL.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LONDON 11117 04 OF 06 061551Z

14. POLITICAL ROT - BRITISH POLITICAL OBSERVERS HAVE
NOTED THAT A POLITICAL MALAISE BEGINS TO AFFECT GOVERN-
MENTS AT AROUND THEIR THIRD YEAR IN OFFICE. ONE OF THE
MANIFESTATIONS OF THE MALAISE IS A KIND OF COLLECTIVE
FAILURE OF POLITICAL WILL. IT IS APPARENTLY A DIRECT
RESULT OF THE STRAIN OF GOVERNING AND IS GRADUALLY

PROGRESSIVE IN ITS EFFECTS. LIKE DRY ROT IN WOOD, THE EFFECTS OF THE MALAISE ARE NOT READILY DISCERNIBLE, THOUGH PERCEPTIVE OUTSIDERS OFTEN RECOGNIZE THE SYMPTOMS BEFORE THEY ARE RECOGNIZED (OR ACKNOWLEDGED) BY MEMBERS OF THE GOVERNMENT. THE DISEASE HAS BEEN VISIBLE IN THE CALLAGHAN GOVERNMENT FOR SOME TIME, AND HAS BECOME INCREASINGLY APPARENT, AS FOR EXAMPLE IN THE RECENT CABINET CONFLICT OVER THE EC DIRECT ELECTIONS BILL.

15. ALTHOUGH THE DISEASE DOES NOT SEEM TO HAVE REACHED A CRITICAL STAGE AND ITS PROGRESS IS NOT CONSTANT, ITS ONSET INCREASES A GOVERNMENT'S PROPENSITY FOR SERIOUS JUDGMENTAL ERRORS.

16. POLITICAL MISCALCULATION - MRS. THATCHER RECENTLY OBSERVED -- THOUGH SHE WAS BY NO MEANS THE FIRST TO NOTE -- THAT IN POLITICS IT IS WISE TO EXPECT THE UNEXPECTED, BECAUSE PLANS OFTEN GO AWRY. THE POSSIBILITY THAT AN ERROR IN POLITICAL JUDGMENT OR A POLITICAL MISCALCULATION WILL UPSET THE MOST ELABORATELY LAID PLANS IS EVER PRESENT. IN THIS REGARD, CALLAGHAN ENJOYS A WELL-DESERVED REPUTATION AS A SHREWD, SENSITIVE AND SKILLED POLITICAL OPERATOR. HIS ABILITY TO ANTICIPATE AND HIS DEFT HANDLING OF PROBLEMS ARE WELL-KNOWN AND CELEBRATED, YET EVEN HE HAS RECENTLY SHOWN SIGNS THAT HIS JUDGMENT AND TOUCH ARE FALLIBLE.

17. THE EVENTS WHICH PRECIPITATED THE MARCH CONFIDENCE VOTE AND THE PACT WITH THE LIBERALS PROVIDED A STRIKING EXAMPLE OF POLITICAL MISCALCULATION AND THE COST IT CAN CONFIDENTIAL

CONFIDENTIAL

PAGE 04 LONDON 11117 04 OF 06 061551Z

ENTAIL. THE APPOINTMENT OF PETER JAY TO BE AMBASSADOR IN WASHINGTON WAS ALSO AN EXAMPLE OF A JUDGMENTAL ERROR. IN BOTH CASES CALLAGHAN MUST BEAR THE FULL RESPONSIBILITY FOR THE DECISIONS THAT CAUSED THE TROUBLE. BUT OTHERS TOO CAN DROP THE SPANNER INTO A SMOOTHLY FLOWING GOVERNMENTAL MACHINE -- WITNESS THE RECENT CASE OF AMENDMENTS TO THE GOVERNMENT'S FINANCE BILL. THE RE-

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 11117 05 OF 06 061600Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 FEAE-00
/099 W

-----071815 061731Z /44

R 061523Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5849
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
USMISSION NATO
AMEMBASSY PARIS
USMISSION GENEVA
USNMR SHAPE
AMCONSUL BELFAST
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 05 OF 06 LONDON 11117

BELLIOUS NATURE OF THE TWO LABOR MPS INVOLVED WAS WIDELY
KNOWN, YET LEADER OF THE HOUSE MICHAEL FOOT, CHIEF
WHIP MICHAEL COCKS AND HIS MINIONS, AND THE LABOR MPS
ON THE SELECTIONS COMMITTEE ALL ACCEDED TO THEIR AS-
SIGNMENT TO THE COMMITTEE REVIEWING THE FINANCE BILL.
EACH OF THESE CASES IMPACTED ON, OR WAS INFLUENCED BY,
THE OTHER KEY FACTORS IN SOME WAY, AND IN EACH CASE
MOST, IF NOT ALL, OF THE CONSEQUENCES SHOULD HAVE BEEN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 11117 05 OF 06 061600Z

APPARENT BEFOREHAND AND THEREFORE AVOIDABLE.

18. IF A GENERAL ELECTION SCENARIO SHOULD DEVELOP WITH-
IN THE NEXT 12 TO 15 MONTHS, WE SUSPECT THAT ITS CRITI-
CAL CAUSE WILL TURN OUT TO HAVE BEEN AN ERROR IN POLITI-
CAL JUDGMENT.

19. RELATIONS WITH UNIONS - THE TUC'S RELATIONSHIP WITH

THE GOVERNMENT IS SYMBOLIZED BY THE "SOCIAL CONTRACT" WHICH EMPHASIZES ECONOMIC AND SOCIAL TRADE-OFFS, SUCH AS WAGE RESTRAINT IN RETURN FOR EMPLOYMENT, ANTI-INFLATION AND OTHER MEASURES FROM THE GOVERNMENT. WORKERS, IMPATIENT WITH WAGE CONTROLS, RESTIVE ABOUT UNEMPLOYMENT AND BITTER ABOUT INFLATION, ARE PRESSING THEIR LEADERS FOR A RETURN TO FREE COLLECTIVE BARGAINING. UNION LEADERS CANNOT IGNORE THIS PRESSURE, BUT THEY CAN SEEK TO SHAPE ITS CONSEQUENCES. THE TUC MAINSTREAM -- AND MODERATE -- LEADERSHIP UNQUESTIONABLY AND OFTEN PASSIONATELY PREFERS A LABOR GOVERNMENT TO THE PUTATIVE CONSERVATIVE ALTERNATIVE. THE TUC ESTABLISHMENT, MINDFUL OF THE SCHISM WHICH DIVIDED THE PARTY FROM THE TUC IN THE LATE 1960'S, HAS WORKED HARD AT TRADE UNION CONFERENCES, IN THE NATIONAL EXECUTIVE COMMITTEE OF THE PARTY, AND AT LABOR PARTY CONFERENCES TO MITIGATE EFFORTS TO EMBARRASS OR UNDERMINE THE GOVERNMENT. IN SHORT, THE TUC HAS BEEN A STRONG FACTOR FOR COHESION.

20. WHETHER THE TUC CAN DELIVER TO THE GOVERNMENT A REASONABLY SATISFACTORY WAGE ACCORD ON AUGUST 1, WHEN THE PRESENT RESTRAINTS EXPIRE, WILL PROBABLY BE DETERMINED WITHIN THE NEXT FEW WEEKS.-"KDCBIEVE THAT UNION LEADERS WILL TRY TO RECONCILE THE TENSIONS FROM ABOVE (I.E. THE NEED OF THE LABOR GOVERNMENT) AND THE PRES-

CONFIDENTIAL

PAGE 03 LONDON 11117 05 OF 06 061600Z

SURES FROM BELOW BY AGREEING TO A THIRD STAGE UNDERSTANDING ON WAGES. ALTHOUGH LOOSE AND PERHAPS SUSPECT, SUCH AN ARRANGEMENT WOULD BE A USEFUL BRAKE ON WAGE DEMAND FWSZGIKLPR NOW THE GOVERNMENT TO DECLARE THAT THERE WILL BE AN ORDERLY RETURN TO COLLECTIVE BARGAINING OVER THE NEXT 12 MONTHS, RATHER THAN A WAGES EXPLOSION. WHILE NOT A GIFT OF PURE SILVER, THIS WOULD SAFEGUARD THE GOVERNMENT/TUC RELATIONSHIP AND HELP THE GOVERNMENT BUY TIME BEFORE IT MUST FACE THE POLLS.

21. ECONOMIC SITUATION - ECONOMIC DEVELOPMENTS OVER THE COMING YEAR ARE LIKELY TO PROVE A SOURCE OF MORE HEADACHES THAN SATISFACTION FOR THE CALLAGHAN GOVERNMENT. THEY WILL, MOREOVER, HAVE A DIRECT INFLUENCE ON PLP COHESION, THE LIBERAL PACT, AND THE POLITICAL ROT AND MISCALCULATION FACTORS, AS WELL AS ON GOVERNMENT/TUC RELATIONS. THE SQUEEZE ON REAL INCOMES, WHICH HAS ALREADY REDUCED CONSUMER PURCHASING POWER BY ABOUT 7 PERCENT SINCE THE BEGINNING OF 1975, WILL NOT ABATE BEFORE THE END OF THIS YEAR. UNEMPLOYMENT SHOULD CONTINUE ITS GRADUAL RISE. STERLING'S RECENT STABILITY, COUPLED WITH THE MARKED REDUCTION IN THE GROWTH OF AVERAGE EARNINGS, POINT TO A PROBABLE SLOWING IN THE RATE OF

PRICE INCREASES. AS A RESULT, BRITAIN'S CURRENT 17 PERCENT INFLATION RATE IS LIKELY TO SHOW IMPRESSIVE DECLINES LATE IN 1977, WITH THE SLOWDOWN CONTINUING INTO EARLY 1978. THE RECENT IMPROVEMENT IN THE CURRENT ACCOUNT MAY LEAD TO A SMALL OVERALL SURPLUS THIS YEAR, AS RISING NORTH SEA OIL PRODUCTION AND IMPROVED EARNINGS ON SERVICES OFFSET THE DEFICIT ON NON-OIL TRADE. THE LONG-PREDICTED UPTURN IN INVESTMENT, HOWEVER, HAS FAILED TO MATERIALIZE, AND CAPITAL SPENDING, PARTICULARLY IN THE MANUFACTURING AND DISTRIBUTION SECTORS, HAS REMAINED DISAPPOINTING.

22. IN SHORT, WHILE BRITAIN'S ECONOMY IS SHOWING SIGNS
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 LONDON 11117 05 OF 06 061600Z

OF ACHIEVING A DEGREE OF EQUILIBRIUM, IT IS FROM CALLAGHAN'S VIEWPOINT WHOLLY UNSATISFACTORY IN TERMS OF OUTPUT AND EMPLOYMENT. THIS OUTLOOK, OF COURSE, SUGGESTS THAT LABOR'S LONGER-TERM POLITICAL STRATEGY WILL FAIL TO PRODUCE THE HOPED-FOR ELECTORAL OUTCOME. IN THE SHORT RUN, THESE PROBLEMS WILL ADVERSELY INFLUENCE THE FIVE OTHER KEY FACTORS.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LONDON 11117 06 OF 06 061557Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 FEAE-00
/099 W

-----071785 061736Z /44

R 061523Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5850
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
USMISSION NATO
AMEMBASSY PARIS
USMISSION GENEVA
USNMR SHAPE
AMCONSUL BELFAST
AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 06 OF 06 LONDON 11117

23. ASSESSMENT - THE POSITION OF A MINORITY PARLIAM-
MENTARY GOVERNMENT IS DEFINITIONALLY UNSTABLE. IT CAN
BE BROUGHT DOWN BY THE COMBINED OPPOSITION OR BY DEFEC-
TION WITHIN ITS OWN RANKS AT ANY TIME. YET THE MEDIUM-
TERM OUTLOOK FOR THE CALLAGHAN GOVERNMENT IS ANYTHING
BUT BLEAK. HIS OPPOSITION IS FRAGMENTED, HE HAS FORGED
AN EFFECTIVE WORKING MAJORITY IN PARLIAMENT WHICH SEEMS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 11117 06 OF 06 061557Z

LIKELY TO ENDURE, AND THE POTENTIALLY DESTRUCTIVE SUB-
STANTIVE ISSUES ON THE HORIZON APPEAR TO HAVE BEEN
NEUTRALIZED. IN SHORT, THERE ARE NO TANGIBLE REASONS
WHY HE SHOULD NOT BE ABLE TO CONTINUE GOVERNING FOR THE
NEXT 12 TO 15 MONTHS. FROM GROSVENOR SQUARE, IT WOULD
APPEAR THAT CALLAGHAN WILL MAKE IT INTO THE FALL OF THIS
YEAR WITHOUT SERIOUS CHALLENGE; THE PROBABLE EXTENSION
OF THE LIBERAL PACT SHOULD CARRY HIM INTO THE SUMMER OF
1978 AND BEYOND; AND WITH LUCK AND SKILL HE MIGHT BE
ABLE TO CONTINUE WELL INTO 1979. IF THE SITUATION RE-
GARDING ANY OF THE SIX KEY VARIABLES SHOULD BEGIN TO DE-
TERIORATE MARKEDLY, HE MIGHT SHORTEN HIS ELECTION
HORIZON, FOR EXAMPLE TO THE FALL OF 1978. AT THAT TIME
THE EROSION OF REAL INCOME SHOULD HAVE ENDED, THE IN-
FLATION RATE SHOULD BE DOWN, AND MANY OF THE ANOMALIES
WHICH CONTRIBUTED TO LABOR'S LOSS OF SUPPORT AMONG
TRADE UNIONISTS SHOULD BE REDUCED. EVEN THOUGH THE
SITUATION MIGHT NOT BE NEAR HIS HOPED-FOR OPTIMUM, IT
COULD BE THE BEST REALISTIC OPTION AVAILABLE.

24. AS FOR LABOR'S PROSPECTS IN THE NEXT ELECTION, WE
ARE SKEPTICAL, BUT NOT BEARISH. EVEN AT THOEOKLOUTER
LIMIT, THE FALL OF 1979, LABOR ECONOMIC EXPECTATIONS
WILL PROBABLY REMAIN UNFULFILLED, SO THE ODDS MUST FAVOR
THE TORIES. BUT THE POLITICAL BALL, LIKE THE AMERICAN

FOOTBALL, OFTEN TAKES SOME FUNNY BOUNCES. WE BELIEVE
IT WOULD BE A MISTAKE TO WRITE CALLAGHAN OFF IN A
GENERAL ELECTION OR TO UNDERESTIMATE THE CONSERVATIVES'
POTENTIAL TO WASTE WHAT APPEARS TO BE A HIGH PROBABILITY
OF ELECTORAL SUCCESS.

BREWSTER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLITICAL STABILITY, CENTRAL GOVERNMENT
Control Number: n/a
Copy: SINGLE
Sent Date: 06-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LONDON11117
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770239-1109
Format: TEL
From: LONDON EEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770788/aaaacyps.tel
Line Count: 770
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0bb8b370-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 15
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1953659
Secure: OPEN
Status: NATIVE
Subject: THE CALLAGHAN GOVERNMENT, ITS PROBLEMS, STRATEGY AND PROSPECTS SUMMARY - THERE ARE SIX DETERMINATIVE AND INTERREL
TAGS: PINT, PGOV, UK
To: STATE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/0bb8b370-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009